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December 9, 2005

AGENDA ITEM 6

TO: MEMBERS OF THE PERFORMANCE AND COMPENSATION COMMITTEE

I.   SUBJECT: Proposed Revisions to the Performance Evaluation
                               Process For The Chief Executive Officer and Other
                               Board Direct Reports

II.   PROGRAM: Administration

III. RECOMMENDATION: Recommend the Board Approve Revisions to the
                               Performance Evaluation Process and Adopt Changes
                        to the Compensation Policies and Procedures

IV.   ANALYSIS:

Performance Evaluation Process

Following the performance review of the Chief Executive Officer (CEO) for the 2004-
2005 fiscal year, the Committee directed staff to review the year-end reporting and
performance appraisal process for the CEO and to suggest changes that would
provide the Committee with specific information.

Attached are proposed changes to the performance reporting documents for the
Chief Executive Officer. The revisions reflect specific suggestions made by the
Committee to include information related to value added to the organization by
accomplishment of the performance measures, challenges encountered, areas
where improvements could be made, and a summary of future plans and vision
looking ahead.

As you know, the Committee and Board are currently involved in the RFP process to
select a new Executive Compensation Consultant. It is anticipated that the
consultant selection will be completed by the end of the year. Staff recommends that
the attached changes to the year-end performance appraisal process be

adopted on an interim basis for the current fiscal year, and that any further changes be made in the context of a more comprehensive review of the entire compensation program once the Executive Compensation Consultant is on board.

Attached for your consideration is the draft of a revised Executive Performance Appraisal Worksheet (Attachment 1). It has been reformatted to include in Part I specific references to results achieved and value added, as well as challenges and the opportunity for improvements for each qualitative performance measure. In Part II of the worksheet, the rated executive is asked to comment specifically on aspects of general leadership, program administration and future plans and priorities.

Staff will continue to explore enhancements in the design and process of the executive compensation program. The revisions proposed herein to the performance appraisal process for the Chief Executive Officer incorporate specific information requested by the Committee. Staff proposes that these changes also be applied to the year-end reporting and performance appraisal documents of the Chief Actuary and the qualitative portion of the Chief Investment Officer's plan for the current fiscal year.

Changes to the Compensation Policies and Procedures

Attachment 2 is an excerpt from the Executive Compensation Policies and Procedures, indicating the addition of language previously approved by the Committee, which delineates the criteria for *"Special Projects"* in the Chief Executive Officer's performance plan.

V.   STRATEGIC PLAN:

Under Goal V of the Strategic Plan, CalPERS is committed to sustaining a high performance work culture. This can be accomplished at the highest executive levels through the establishment of methods that provide broad flexibility in the recruitment, retention and compensation of key management personnel.

VI.   RESULTS/COSTS:

The management of a competitive compensation program is critical for the attraction and retention of key executives at the highest levels of the organization. This in turn is essential to the success of the organization. The proposed interim revisions to the performance appraisal process are not anticipated to result in any added costs.

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Chris O'Brien, Chief
Human Resources Division

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Gloria Moore Andrews
Deputy Executive Officer, Operations

Attachments